

# The University of Cambridge Institute for Sustainability Leadership

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# **Summary**

Never before has the question of what a sustainable business is and how it can be achieved been more important or urgent.

Simply put, sustainability is about achieving prosperity and welfare (wellbeing) for all of society (equitable) over the longer term (durable). The objective of such wellbeing is primarily twofold: first, optimising equitable wellbeing outcomes; and secondly, protecting and regenerating the natural resource base that underpins this wellbeing.

These two aims could justifiably be said also to comprise the core goal of any economy. Given that business serves as the engine of an economy<sup>1</sup>, it is equally legitimate to consider companies as central to the delivery of sustainability- wellbeing for all over the long term.

#### Wellbeing for all

So, what are the optimal pathways through which business can best create wellbeing for all society?

This question provides the central thread of this document, which is the first in a series about the nature, role, and delivery of purpose-driven business. Drawing heavily on the history of business theory, this introductory paper endeavours to provide a thorough conceptual base for understanding how companies perceive value, how (and if) this relates to wellbeing, and how they seek to create and deliver both.

As a foundational step, it is necessary to interrogate the mental models that underpin corporate attitudes to value and wellbeing. These models, often adopted unconsciously, can present profound obstacles to sustainability or generate far from optimal sustainability outcomes. Although each company's transformation journey will look different, most businesses will face some common realities, particularly in terms of the subtle influence of 'business-as-usual', or BAU, and the – often invisible – assumptions that shape daily decision-making by organisations.

#### Fresh vision: purpose-driven

This series of papers contends that tweaking today's mainstream economic and business models will not suffice to deliver the sustainable outcomes that are now so urgently needed. Such an approach may lead to a 'less bad' form of business, but this is no longer sufficient.

Instead, it will examine an alternative, purpose-driven approach to business that presents a fresh vision for creating durable, equitable wellbeing. We hope this will lead to a shared vision of how future businesses consider their role in society and a common understanding of the potential pitfalls ahead.

#### **Central tenets**

This paper is built around the following three core beliefs:

- 1. Business-as-usual undermines sustainability. Business-as-usual firms typically assume that by focusing on profit maximisation in a competitive marketplace they help create societal value. The data on unsustainability shows that this assumption works against the creation of sustained wellbeing for all. Exposing why and how business-as-usual fails to deliver sustainability will help companies to better understand where they currently are, the barriers they face and carve a clearer path for their transformation goals.
- 2. Tweaking business-as-usual does not lead to sustainability. As awareness of its unsustainable outcomes has grown, the BAU logic has been modified. Corporate Social Responsibility (CSR) responds to stakeholder pressure to protect short-term profits whereas Enlightened Shareholder Value (ESV) firms shift the time horizon to the long term and so start to build value for the stakeholders and natural systems upon which they depend. However, both models remain in hock to the business-as-usual central tenet of profit maximisation, which ultimately prioritises one type of value creation for one stakeholder group (shareholders or the firm itself).
- 3. A purpose-driven approach to business is the best route to sustainability. Purpose marks a break with most of the core assumptions of business-as-usual that undermine sustained wellbeing for all. Instead of assuming that wellbeing will 'trickle down' via the market, purpose-driven companies take a proactive approach and are accountable for delivering long term wellbeing. This strategic contribution to a 'wellbeing for all over the long-term' outcome delivered in a way that safeguards the supporting social and environmental systems, provides the philosophical, ethical, strategic and innovation core of a purpose-driven company. Purpose, if understood and implemented effectively, operationalises sustainability and aligns the interests of society, employees and stakeholders, including shareholders, with a sustainable future.

Evidence informing this paper draws from both a wide interdisciplinary academic literature base along with the 30 years of in-depth experience of the University of Cambridge Institute for Sustainability Leadership (CISL) in inspiring and supporting businesses taking ambitious leadership and practical action for sustainability.

The focus of analysis is on the business level of the system rather than the individual or broader system. As business systems are, of course, completely interdependent within these different system levels, reference to them is made throughout.

It is vital to note that throughout this introductory paper, the characterised logics (the paradigms that shape how organisations approach decisions) and behaviours of organisations are necessarily generalisations. These represent what the 'archetype' organisation would/should do rather than an average or actualised version.

This is the first foundational paper in the Organisations we Want series. The second paper looks at purposedriven organisations in more detail, while the third and fourth papers explore the topics and the implications for Culture and Governance, respectively.

#### 1. Introduction

At the highest level of analysis, this paper understands the purpose of an economic system in the following generalised terms: "to deliver wellbeing for society<sup>12</sup> as a whole, over time, (long-term wellbeing for all), through the optimal allocation of scarce resources."

Drawing from the work of the Brundtland report<sup>3</sup> and Jonathan Porritt,<sup>4</sup> among others, this definition also serves to capture the essence of sustainability. This mirroring of meaning indicates a coterminous relationship between a sustainable economic system and a properly functioning economy. Neither scenario aptly describes the economic system that international capitalism has progressively optimised over the last half-century or so. Far from being 'sustainable' or 'properly functioning', increasingly the evidence is that today's dominant economic model is failing to deliver long-term wellbeing for all. Indeed, it is often criticised for producing the precise opposite: namely, short-term material wealth for a few.<sup>ii</sup> The social unease at this disparity is somewhat masked when times are good, but the cracks are quickly noted when crises like the pandemic hit.

"The lack of resilience in the 'old' system has been revealed." 5 (Dame Polly Courtice, March 2020)

While the extent of the influence of business-as-usual has taken a while to manifest itself, the transformation of the last fifty years is now increasingly recognised<sup>6</sup>. The world, as a consequence, is now standing at an epochal turning point. Despite notable progress on a number of fronts, the development of today's ever-expanding systems of resource extraction has come – and continues to come - at the expense of human wellbeing<sup>78</sup>. International leaders and national governments are starting to address the issues of business-as-usual from a global and national governance perspective, with a move from GDP as a financialised proxy of success towards measures of wellbeing.<sup>910</sup>

#### Wellbeing as the measure of human endeavour

While the nature of wellbeing, welfare, and utility all differ, all three concepts relate to the ultimate goal of human endeavour. Wellbeing is a term that can best encapsulate society's ideal outcome for society. The ongoing deliberation is then how society can best define wellbeing and how to achieve it. While wellbeing is highly culturally dependent, the literature prioritises first-order concepts, such as categorisations of human needs. These needs are universal in underpinning wellbeing <sup>11</sup> <sup>12</sup>.

Wellbeing as a concept has been described from a number of disciplinary perspectives. For the purposes of this report, wellbeing is defined using an interdisciplinary synthesis definition prepared for the British Standard for Social Value (under development). This describes wellbeing as: "a balanced state of being where no fundamental psychological or physical human needs are significantly deficient and hence the foundations of physical and psychological health are present in enough measure to meet challenges faced."

<sup>&</sup>lt;sup>1</sup> While sustainability can be thought of as being about delivering wellbeing over time to human *and* non-human life, economics is a human social construct and has been defined specifically regarding the delivery of value for humans (even where the instrumental reliance on nature to do this is now being recognised).

ii A range of data across the natural and social sciences argues this. For example, a widely cited 2018 Oxfam report found that 82% of all wealth created in 2017 went to the top 1%, and nothing went to the bottom 50%<sup>2</sup>

It is important to note that wellbeing can be broadly seen as either hedonic or eudaimonic, drawing from Epicurean or Aristotelian thought, respectively<sup>13</sup>. In keeping with the trend in the literature, the eudaimonic approach is emphasised here. This equates to flourishing or the 'good life', which includes being able to participate purposefully<sup>14</sup>. This is not always correlated with hedonic wellbeing, which is individualistic and pleasure/happiness-oriented.

"A new world is taking shape. More and more people are recognising the limits of conventional yardsticks such as Gross Domestic Product, in which environmentally damaging activities can count as economic positives. This is a moment of truth for people and planet alike. COVID and climate have brought us to a threshold... Instead, we must step towards a safer, more sustainable and equitable path. Now is the time to transform humankind's relationship with the natural world – and with each other". 

[UN Secretary-General António Guterres]

The private sector is increasingly aware of the vulnerabilities and unsustainability baked into the heart of the current system and is beginning to lead the vanguard of change. For some time, leading businesses have been in the process of change aimed at delivering shared and sustainable value, but their will often does not match their action. Their struggle, however, to achieve this transition highlights the difficulties of changing tack in a world set up for delivering a different kind of success — a world these same institutions have been central to creating. Despite the structural and perceptual lock-in, there is a growing recognition that change is both necessary and urgent. Business is being called upon to effectively and accountably deliver social and environmental wellbeing if society is to prosper in the long term.

This imperative for profound change gives rise to a prescient question for business, both at an individual and collective level: what steps must companies now take to enable and thrive in a sustainable economy? In considering responses, clarity must be given to how success is defined and what barriers and challenges stand in the way. Recognising and removing redundant ways of thinking and acting that are holding back necessary change is as essential as designing this new system. For this reason, it is vital that businesses "acknowledge their role in the creation of our current society—and abandon the defence of 'business-as-usual'". <sup>16</sup>

By both envisioning the future and undoing the past, transformation is possible.

In effecting this transformation, incumbent organisations need to guard against losing what is distinctive and sustainable about them. Companies need to determine how they retain and build on what they do best while changing what works against the shift towards a more sustainable economy.

Central to this transformation challenge is the concept and meaning of value. A business needs to be clear about what value it wants and needs to produce, for whom, in what way, and over what time horizons. This allows companies, stakeholders and society to analyse the business contribution (positive or negative) to society's shared purpose of long-term wellbeing for all. Without exploring these questions, it is hard to see how businesses will do anything but continue to compound unsustainability.

These kinds of questions have been constrained in the past few decades as capitalist economies coalesced around certain core assumptions about the primary role and responsibility of business in creating wellbeing for society, simply put, to focus doggedly on maximising financial value - for the firm and its shareholders,

above all else. This focus has not come to dominate without ongoing and robust contestation. Indeed, challenges to emerging orthodoxies concerning business's social role have given rise to a quiet paradigm shift in the thinking underpinning the current form of Western corporate capitalism. One of the most notable examples of this revolution in business thinking towards purpose-driven capitalism is Larry Fink's annual letters to CEOs of Blackrock's institutional investor clients. As head of the world's largest asset manager, since 2018, Fink has broken with orthodox assumptions by arguing explicitly that companies should be purpose-driven, not merely vehicles for the creation of financial value on behalf of shareholders. This message was echoed in the US Business Roundtable's *Statement on the Purpose of a Corporation*<sup>17</sup> and the World Economic Forum's 2020 Davos Manifesto on *The Universal Purpose of a Company in the Fourth Industrial Revolution*. <sup>18</sup>

The significance of these shifts in narrative cannot be underestimated, even though their influence is largely symbolic, and some confusion remains in the debate about alternative models of business. Notably, a blurring still exists between the boundaries of enlightened shareholder value, stakeholder orientation, and purpose-driven organisations (a shortcoming this series of papers attempts to address head-on). Notwithstanding these caveats, the kinds of examples described above clearly signal a line in the sand for the idea that business exists solely to create value for one single stakeholder group. Not only do other models of business exist, but they are more advantageous for stakeholders – both as individual groups and collectively.

Indicating that a brake with business-as-usual is not only possible but highly desirable is, it must be said, a far cry from effecting such a break in practice. A lack of precision and consensus still surrounds the nature of the alternative approach for business. What organisational form should it take? What value should it pursue? What implementation strategies should it advance? All these questions remain open to debate. Such conversations are complicated further because today's prevailing economic norms, and the underlying systems and structures that support them, continue to point in another direction: towards the prioritisation of short-term shareholder value at all costs.

A number of models of organisational maturity regarding sustainability already exist. <sup>19,20,21</sup> The below analysis will build on these by interrogating how the structures and underlying logics of organisations favour, or disfavour, the delivery of sustainability. The central proposition of this paper is that purpose-driven organisations (as defined below) are the most compatible with delivering a *comprehensive* sustainability proposition. Other organisational logics are either geared to unsustainability or will not be able to innovate for a sustainable future well enough or fast enough. We define 'comprehensive' as the twin deliverables of: (1) creating societal wellbeing across the long term (ends) and 2) protecting and building underlying resources (means).

The remaining sections of this paper are designed to provide a foundation for business decision-makers to envision and effect a transition of their organisations to a purpose-led model. Alongside a discussion of the key features of a purpose-led organisation, this paper gives particular attention to the issues of corporate culture and governance as these are critical components of both organisational transformation and long-term value creation.

# 2. The role of Business-as-usual (BAU) in unsustainability

"Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of material requisites of wellbeing." (Alfred Marshall, 1890<sup>22</sup>)

Economics is a complex and highly debated discipline. At its core, however, economic theory concerns itself with the basic question of how to optimally allocate scarce resources in a manner that maximises the utility of those resources for the wellbeing of society at large.

Since the end of the Cold War, capitalism has become widely viewed as the optimum economic model for utilising scarce resources to achieve wellbeing. Borrowing from the Merriam-Webster definition, we understand capitalism to comprise "an economic system characterized by private or corporate ownership of capital goods, by investments that are determined by private decision, and by prices, production, and the distribution of goods that are determined mainly by competition in a free market".<sup>23</sup>

Since the dawn of the corporation in the 1800s, <sup>24</sup> and their subsequent explosion in size and power, companies (particularly, the incorporated company) have been the primary vehicle that the capitalist system has elected to deliver societal wellbeing within a formal economy. As the management theorists Edward Freeman and Karim Ginena state: "Businesses as human institutions are established in order to better society through the production of goods and services and the advancement of knowledge." <sup>25</sup>

To best achieve this end, lawmakers historically opted to 'incorporate' corporations as separate legal entities (with rights and responsibilities akin to private individuals). Caps were also placed on the liabilities of corporate directors through a legal principle known as limited liability. <sup>26</sup> Because these freedoms are ascribed by policymakers, who are mandated to act in the public good, it can be argued that companies' legal and social license to operate is ultimately granted "by the people, for the people". <sup>27</sup> The legal innovations of incorporation and limited liability helped transform businesses from small, owner-managed, predominantly rural enterprises to the larger, publicly owned corporate entities we see today. The United States pioneered this transformation of the business sector, which commenced around the 1840s and culminated around the 1920s. This shift in size and concentration meant that the original logic of capitalism being governed by the 'invisible hand' of numerous disparate actors was overtaken by a relatively small group of salaried corporate managers exercising a far more 'visible hand'. <sup>28</sup>

Hence, accompanying this development of modern corporate capitalism has been a marked increase in the power, responsibility, and remit of businesses and their managers in relation to society and the state that would no doubt surprise the corporate legislators of yesteryear. Certainly, the extent of the role of companies as engines of social wellbeing extends beyond what was initially imagined. This transition has been categorised as moving from a model of 'propriety capitalism' to one of 'managerial capitalism' or 'collective capitalism'.<sup>29 iii</sup>

iii The Harvard-based economist Gardiner Means described the essence of collective capitalism in the following terms: "a new impetus to the search for a more general managerial objective than that of making as much money as possible. Doubts about profit maximising as the ultimate business objective are increasingly being voiced by friends of the free enterprise: owners, employees, customers, suppliers, creditors, government and the public."<sup>29</sup>

The thinking that market mechanisms are the optimal means of allocating scarce resources to beneficial uses has led to the marketisation of many aspects of everyday life, which stands as one of the primary contemporary criticisms of 'business-as-usual' models of capitalism and the form of corporate sustainability it has given rise to

The contemporary social role attributed to companies has been propelled by an economic rationale that positions the market as the most appropriate arbiter of resource allocation for optimised social wellbeing. The US economist Milton Friedman famously captured this expansionist view of laissez-faire capitalism in a landmark essay for *The New York Times Magazine* in 1970. Pitting corporate-led capitalism against state-led socialism, he used the essay to argue against what he termed a socialism-aligned "doctrine of 'social responsibility'". <sup>30</sup> At the core of his argument, which has influenced popular perceptions of the social role of business for the best part of half a century, is the notion that market mechanisms (as opposed to political mechanisms) are the appropriate means of allocating scarce resources to beneficial uses. Such thinking has led to the marketisation of many aspects of everyday life, which stands as one of the primary contemporary criticisms of 'business-as-usual' models of capitalism and the form of corporate sustainability it has given rise to. <sup>31</sup>

Business-as-usual is open to numerous interpretations, but it can lay claim to certain stable and pervasive features that can be said to strongly shape modern society today, particularly in the West. Central to business-as-usual is what is termed 'laissez-faire', 'free market', or 'neo-liberal' views about capitalism, which broadly accord with aspects of the theories of Adam Smith (and espoused by modern thinkers in the tradition of Milton Friedman). <sup>32</sup> At the heart of these different variants of liberal economics is a belief that markets need to be as free as possible from state intervention and ideological influences if they are to fulfil their purpose of delivering optimal social outcomes. Proponents of economic liberalism argue that the market (and hence businesses and others who engage in it) should dominate economic activity. Government spending and regulation, in contrast, should be kept to a minimum – or, as some extreme views hold, not exist at all. In other words, the market economy should be seen as "an automatic self-regulating system motivated by the self-interest of individuals and regulated by competition". <sup>26</sup>

Another fundamental concept entrenched in the tenets of economic liberalism is the notion that profits maximised through companies should be for the primary benefit of shareholders and based on their primary control rights. <sup>24 30 iv</sup> This position is justified through a range of arguments, including: (1) that it serves to reduce the non-democratic influence of individual values diverting owners' money for their own value-based ideologies; and (2) that it acts to reward investors for the risks taken when assigning their capital to a particular company. Shareholders are therefore designated 'principals' while governing bodies and managers are defined as 'agents' mandated to carry out shareholders' intentions. According to business-as-usual thinking, these intentions are naturally based on profits as the assumed self-interested financialised goal of investors. <sup>33</sup> It is this 'principal—agent' theory that underpins modern conceptions of corporate governance

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This rise of shareholder primacy is generally pinned to Milton Friedman's 1970 article 'The Social Responsibility of Business Is to Increase Its Profits.' As early as 1953, however, Bowen had noted that business people were already questioning the standard view that serving stockholders is the sole end of managers' duties. To quote Bowen in full: "There is no doubt of an increasing awareness on the part of businessmen that they have important obligations to society. The concept of 'stewardship' is, of course, an old one, and many businessmen have been thinking in this direction. Only within the past few years, however, have large numbers of business leaders publicly acknowledged and actively preached the doctrine that they are servants of society and that management merely in the interests (narrowly defined) of stockholders is not the sole end of their duties. Indeed, discussion of the 'social responsibilities of business' has become not only acceptable in leading business circles but even fashionable. Many heads of major corporations have made eloquent and apparently sincere expressions of the obligations of business to society at large, introducing a positive and constructive note into the social thinking of businessmen."<sup>27</sup>

and management. This same underlying goal of aligning shareholder, director and managerial interests via the financialised self-interest mechanism explains why executive and boardroom pay is linked to shareholder performance — a link that had led to increasing criticism as executive remuneration diverges ever further from the wages of non-executive workers. This is explored in more detail in the third paper of the series dealing focused on governance.

After its gradual ascent during the mid-nineteenth century to the early twentieth century, business-as-usual capitalism fell from favour as governments increasingly sought to more directly intervene to address critical social issues in the wake of the First World War.<sup>26</sup> Dominated by demand-side economics (spearheaded by the British economist John Maynard Keynes), the "'managerial capitalism' of the post-war era was characterised by relatively autonomous management that had a certain preference for growth (as opposed to profits)".<sup>34</sup> In this period, managerial capitalism retained a degree of focus on structural issues, such as the maintenance of full employment.<sup>28</sup>

However, corporate managers' focus became increasingly centred on the longer-term business success of the company to the extent that it underpinned employment and routinely made decisions against this goal rather than profit maximisation for shareholders. The perceived power that certain non-shareholder interests enjoyed within a managerial capitalist system was singled out for particular criticism. Trade unions, for instance, were widely accused of influencing managers to agree on employment deals that favoured the interests of workers over those of shareholders. Such non-shareholder interests were seen as creating a drag on economic innovation and activity, setting the scene for broad discontent with managerial capitalism. Compounding this, the post-war decision-making context was also profoundly influenced by the Cold War and related fears that individuals would ideologically align with Russia, along with a raw memory of the influence one person's misguided values, namely Hitler's, could have on the world.

Business-as-usual was given a new lease of life following the economic stagnation of the 1970s, which liberal economists such as Friedrich Hayek attributed to Keynesian demand-side economics. This confluence of issues likely lay behind the support for the drive to prioritise shareholder value that occurred in the 1970s under the protagonism of the so-called 'Chicago School of free-market economics' (of which Milton Friedman played a prominent part).<sup>22</sup> Hence: "Through the shareholder revolution, [manager] interests got realigned with those of shareholders, who have a stronger preference for profits, as opposed to growth (Stockhammer, 2004:4)."<sup>33</sup> In the 1980s and 1990s, the US and the UK spearheaded the business-as-usual logic economics.<sup>36</sup>

#### 2.1 The assumptions of Business-as-usual

A key feature of modern business-as-usual is that it is heavily reliant on mathematical modelling or 'econometrics', criticised by Hayek in his Nobel Prize speech in 1974.<sup>37</sup> Econometrics relies heavily on classical and neo-classical economic theory, which is brought to life in its political guise of 'neo-liberalism'. The precepts of neo-liberalism have undeniably imprinted Western corporations, from their organisational systems, processes, policies, and strategies through to their models of leadership, governance, culture and education; a similar influence is evident in public policymaking. In summary, business-as-usual could be said to have expanded beyond the confines of its business origins and taken on the form of a general social narrative. <sup>15,38</sup> The business assumptions of neo-liberalism are so ingrained in modern society that, up until now, they have gone relatively unquestioned.<sup>39</sup> "To suggest a drastic change in the scope or character of corporate activity is to suggest a drastic alteration in the structure of society .. All of this is to suggest not that the corporation cannot be touched but that to touch the corporation deeply is to touch much else beside".<sup>40</sup>

Because business-as-usual assumptions structure and guide business decision-making at the deepest level, understanding them is critical to understanding the constraints that organisations face when seeking to align with new forms of business geared towards delivering sustainability. See Table 1 for a high-level, generalised summary of these key assumptions.

Table 1: The core assumptions underpinning BAU organisational logic

Assumption	Summary assumption generalisation
Self-interest	Humans are best understood as primarily motivated by egoistic self-interest. This self-interest will drive optimised market effectiveness and hence maximise the positive outcomes of the economic system as a whole. Following this same self-interest logic, managers are assumed to be inclined towards maximising their own interests, alongside or in place of those of shareholders, and must therefore be closely watched. Employees, as financially motivated self-interested individuals, are best incentivised by financial reward.
Profit maximising/ utility maximising core intent	The self-interest that humans are primarily seeking is utility, which is a proxy for welfare/wellbeing, and they use income to attain it. This mirrors organisations, which are also assumed to be encouraged to be self-interested, where profit maximisation is used to attain it.
Theory of rational behaviour (or bounded rationality)	Individuals are historically viewed as rational in that they act in accordance with their preferences (i.e. making decisions to enhance their utility/self-interest). In light of critiques of pure rationalism, the above position has been revised to an assumption of 'bounded rationality', which presupposes that people are prevented from making optimal decisions for their utility by constraints such as time, information, and cognitive limitations.
Shareholder primacy	Shareholders are the rightful beneficiary of company action (the 'principal'). Governing bodies and managers are 'agents' acting on behalf of shareholders to maximise the latter's interests. These interests constitute the maximisation of financial profit.
Competition	Competition is the core mechanism for keeping organisational self-interest in check. It functions by making companies pass sufficient value on to customers rather than retaining it for themselves. Out-competing market peers is an imperative of management, although regulation exists to prevent this from being achieved through collusion or monopolistic behaviour.
Minimised government intervention and spending	A perfectly running, free market would not need any government intervention and would efficiently allocate resources in society as a whole without the need for government to do this. From a business-as-usual perspective, state intervention and spending is a sign of a suboptimal market economy (market failures). This could manifest itself in the formation of monopolistic power, information asymmetries, or the failure of markets to price in externalities, among other features. Government intervention (usually via law or regulations) is the appropriate means by which commonly held social values operate as parameters to company behaviour. Hence, in a democracy, society sets the 'rules of the game' through the mechanisms of government. These socially determined acceptable behaviours, which guide <i>how</i> profits are maximised, are not for the company to decide. For these reasons, customers and consumers should not be confused with citizens. People as citizens make their legislative preferences about <i>how</i> companies operate known via governments who serve them. However, people as customers and consumers make their individual utility preferences known to companies via the market. Government is assumed to protect social wellbeing in moments of crisis (e.g. the 2008 financial crisis and the Covid-19 crisis).

Perfect information	If everyone in a market has complete (perfect) information, then the market will run at maximum efficiency and without the need for government intervention. The core constraint to utility maximisation is income level. Under this ideal scenario, consumers would know all their choices and be able to action their rational choice accordingly. Companies would also know exactly what their competitors are doing and what consumers want. However, economic systems inevitably contain considerable information asymmetry — a phenomenon enhanced by variable power dynamics. Trying to create perfect information is, therefore, a core goal and an example of valid market correction by government by improving information flows between different economic actors. This can be achieved through minimum legal standards, quality assurance certification schemes, consumer awareness and disclosure requirements, among other measures.
Values and responsibilities neutral	Acting on social values in a business context is doctrine that reduces freedom and imposes one person's views on another. A business cannot have values and responsibilities, only a person can, and the proper way for these personal values to be expressed is through democratic governmental processes. The expression of personal values in business decisions (other than by shareholders) comprises an abuse of the resources entrusted to managers for the purposes of profit maximisation. For this reason, human values and business should be kept entirely separate.
Freedom of consumer choice	The greater the choice, the more likely someone is able to fulfil their particular routes to wellbeing (utility). Constraining choice, for example, through business initiated choice-editing, if not for profit-maximising, is anti-market and amounts to imposing a company's values on the consumers' ability to maximise their own utility.
Value is subjective to the individual. The customer is king (consumer sovereignty)	What is of value (utility) to an individual is entirely subjective, yet it is also stable and knowable through market transactions. People will spend more money on something they get more value from. Customer satisfaction will be optimised if companies produce what individuals demand in the market (consumer sovereignty) and shape their business around these demands, consequently increasing company value. This customer centred 'marketing concept' ideal comprises the basis of the business concept of 'marketing' as opposed to a productivist/ sales orientation dominant in classical economic thinking, which primarily seeks to maximise company value through increased sales and reduced costs.
The rationale for consumer preferences is not the concern of the company	It is not necessary to understand what underpins consumer preferences to deliver what consumers want. Preferences are revealed through consumer choice in the market via the products and services they demand. This intelligence is best achieved by market research. Consumers are 'rationally self-interested utility maximisers' and so they know best how to optimise their own utility. Therefore, a company should concentrate on its self-interest and let consumers focus on theirs. Any attempt to educate consumers or otherwise alter preferences is a distortion of the market. All things (such as income levels) being equal, consumption levels would theoretically increase as people gain access to more accurate information (as such information would enable them to increase their utility maximisation via the market).
Trickle down	Wealth created at the top income levels where innovation and entrepreneurial potential is large and needs incentivising is one of the best ways to ensure wealth is created at the bottom income levels – a concept captured by the popular refrain: 'a rising tide lifts all boats'.
Private property	People and companies should be free to own material and non-material possessions (e.g. intellectual property) that others (particularly the state) cannot take from them.
Globalisation (economic)	The concept of a free market is a global one and not confined to arbitrary national borders. National borders to trade (protectionism) enforced by governments, therefore, reduces global wellbeing outcomes as it constrains the potential for the market to meet consumer preferences as efficiently as possible.

Limits on physical resources will be solved through innovation or price signals/ substitution	Resource constraint problems can be overcome through innovation and/or pricing, limiting demand in line with supply constraints. Hence, there are no formal limits on resources that need to be considered by organisations. There is likely to be a natural limit to environmental degradation when income levels reach a certain level and people begin to demand higher environmental standards (known as the 'environmental Kuznets curve').
Growth is a sign of success	The success of an organisation or individual is only constrained by their abilities and effectiveness to deliver what others require (which is underpinned by self-interest). If a person is very rich or a company extremely large, this is because they are doing a good job in delivering utility. Such success is to be welcomed as long as it is achieved within the rules of the game and not to the exclusion of fair competition.
Short-termism (a consequence of the above assumption in practice)	This is not an objective but an outcome of a system in which shareholders demand profit maximisation. As stocks are commoditised, investors move speedily to find the greatest and least risky returns. This creates momentum towards the prioritisation of short-term performance. Companies, especially those with a large number of non-institutional investors, are more likely to experience strong short-term pressure for returns (although institutional investors have themselves been cited as part of the short-term problem).

#### 2.2 Business-as-usual and wellbeing

Given the above, it can be easy to overlook the purpose-driven logic that underpins classical BAU theory. This tendency to overlook the moral logic underpinning business-as-usual is especially true of actors operating outside or on the margins of BAU organisations. Those within the system, however, often hold firmly to business-as-usual's roots as an engine of wellbeing. This explains the strong emotional response of many of those immersed in the BAU system when the maximisation of profits is criticised as somehow amoral or misguided. Many still believe wholeheartedly (often at an unconscious, cultural level<sup>v41</sup>) that their self-interest is a force for the ultimate good of others and that producing and growing profits (and resultant jobs) is one of the most important acts in society.

This explains the strong emotional response of many of those immersed in the BAU system when the maximisation of profits is criticised as somehow amoral or misguided

The power of this normative reality was clearly expressed by *The Economist* in 2019 in their special issue on corporate purpose:

"Businesspeople, being people, like to feel that they are doing good. Until the financial crises, though, for a generation or so most had been happy to think that they did good simply by doing well. They subscribed to the view that treating their shareholders' need for profit as paramount represented their highest purpose. Economists, business gurus and blue-chip CEOs like those who make up America's Business Roundtable confirmed them in their view. In a free market, pursuing shareholder value would in and of itself deliver the best goods and services to the public, optimise employment and create the most wealth – wealth which could then be put to all sorts of good uses (The Economist, 2019)."<sup>30</sup>

<sup>&</sup>lt;sup>v</sup> Many academics have described this level of thinking. Bourdieu (1977) a social theorist, famously calls this the 'doxa' to describe what is taken for granted and 'self-evident' in any particular cultural setting.<sup>41</sup>

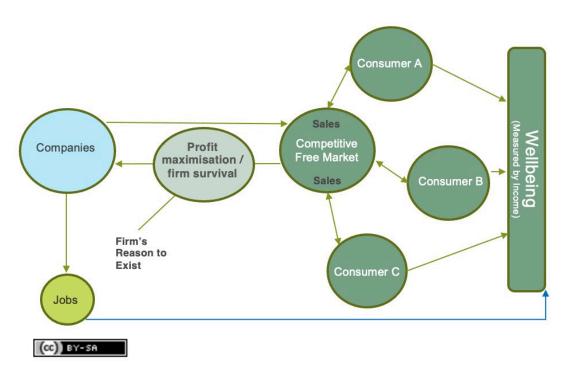


Figure 1: BAU wellbeing logic of the market

#### 2.3 Business-as-usual and sustainability

As already outlined, the purpose of an economic system is to deliver socially valuable outcomes (wellbeing) for society as a whole. Furthermore, these outcomes should be delivered over time (hence, necessarily within ecological limits). They should also be durable and equitable. This definition of purpose is, in both essence and form, an exact mirror of the goal of sustainability. Hence, a sustainable economy and a properly functioning economy can be seen as the same.

The evidence suggesting that business-as-usual is more often delivering short-term material wealth to a few is, therefore, grounds enough to label it unsustainable. The fact that the overexploitation trends identified by Will Steffen and colleagues in their description of the 'Great Acceleration' increase as business-as-usual took hold as the dominant logic, is unlikely to be a coincidence. Economists like Herman Daly have, over the years, clarified the inbuilt unsustainability of the current economic system system. As a result of a narrow focus on one fungible value outcome (profit) delivered as quickly as possible, business-as-usual has come to represent a myopic view of economics. As Daly notes, this places the 'ultimate means' of economic activity (the natural and human resources) and the 'ultimate ends' of it (wellbeing) outside the line of sight of business decision-making (see Figure 2). Hence, business-as-usual typically adopts a narrow view of economy/economic activity it relies upon (the means). The same is true for the types of outcomes that it seeks to create (the ends) and the identity of its intended beneficiaries. The narrow perspective tends to exclude critical themes such as nature, climate, and long-term wellbeing. This oversight can lead to decisions and actions that harm or undermine these issues.

This means that while wellbeing is the assumed automatic outcome of business-as-usual, no one (neither organisations nor government) is tasked with checking whether their actions deliver wellbeing or not. Hence, at a macro level, the widespread use of the gross national product (GNP) – and its close equivalent, gross domestic product (GDP) - has been situated as the only measure that needs to be monitored as valid as a proxy for societal wellbeing. As the US environmental scientist Donella Meadows explains, the assumption

underlying orthodox economic neo-liberalism is that "quality of life will always rise in any nation that succeeds in increasing its GNP". 44

This puts the dangers of the system out of grasp and creates a narrow yet comfortable operating space for business, governments and society as a whole. This, in turn, means there is a disinclination to seriously interrogate emerging evidence of unsustainability that questions the societal contribution of business-as-usual. BAU companies merely press on with satisfying customer demand to maximise profits for shareholders, assuming that employment and wellbeing will continue to – somehow, somewhere – emerge in the process. In as much as additional considerations to address sustainability are taken into account, these typically comprise a commitment to act within the 'rules of the game' (law). Milton Friedman scoped the moral boundaries of organisational decision-makers in the following terms: "Business managers should maximize corporate value for shareholders in free competition without fraud or deception. Issues that go beyond this narrow mandate fall within the purview of freely elected officials who seek to promote the collective interest". <sup>45</sup>

The narrow domain of the overall economic system in which business-as-usual has come to operate is illustrated in a modified version of the Daly Triangle in Figure 2. According to Daly<sup>43</sup>, Meadows<sup>46</sup> and their proponents, sustainability is achieved through a form of economics, and business thinking, that is based on a long-term and broadly framed approach to decision-making. Such an economic model optimises the 'ultimate end' goal of wellbeing whilst ensuring that the viability of underlying natural and social capital at the base. Vi 47

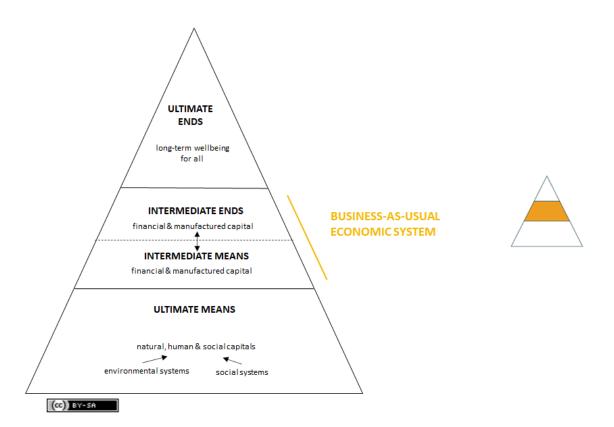


Figure 2: Business-As-Usual 48

vi And, by extension, all the other capitals, for example natural; human; social and relational; financial resources; intellectual and manufactured as classified by the International Integrated Reporting Council

Given the cultural embeddedness of today's business-as-usual oriented economic system, it is not surprising that governments can also adopt a myopic view of the system's shortcomings and the existence of possible alternatives. For example, though there are some notable exceptions, until recently it had been uncommon to see policymakers integrate thinking based on ultimate means and ends into their decisions. Arguably, a systematic lack of regulation over the years has allowed negative externalities to be loaded on the 'ultimate means'. The short-term focus of BAU companies means they are often unable to see the benefits of legislation that seeks to protect resources from longer-term impacts; their preference instead is to lobby against legislation designed to prevent or limit negative externalities that (in their view) offer a free means of increasing their short-term profit margins.

#### 2.4 Business-as-usual and value creation

Within business-as-usual, there are broadly two main approaches to value creation, one of which is less aligned with sustainability and one of which is more aligned. <sup>49</sup> The first is 'make-and-sell'. Drawing from classical economic thinking, this approach is imbued with a 'productivist' logic that assumes a firm can best capture value by increasing sales of its core goods and/or services and by reducing its costs. <sup>50,51</sup> In this respect, the marketing function closely resembles a sales function. The focus of innovation here is primarily internal and management thinking tends to be inwardly focused (towards optimising returns on easy-to-produce goods). Ensuring the delivery of benefit for society is not an overt priority.

The second approach, termed 'sense-and-respond', closely aligns with the neo-classical concept of economic thinking and modern marketing. <sup>52,53</sup> This approach is premised on companies capturing market share and growing their revenues through rigorous attention to first understanding then meeting customer needs and wants. First popularised in the 1960s, this second approach is characterised by the 'customer is king' principle. Its growing influence is seen in the emergence of marketing from a subset of economics to a standalone discipline in its own right.

While still constrained by the logic of profit maximisation, 'sense-and-respond' thinking encourages organisations to start their innovation from an external viewpoint. In this regard, it moves companies towards a greater appreciation of broad stakeholder relations — a critical step in the transition towards business sustainability. That said, organisations in this business-as-usual segment struggle to break free from an unsustainable 'make-and-sell' mindset due to the link between sales' growth and short-term profit maximisation. <sup>50</sup> Serving customers frequently comes into conflict with decision-making that optimises short-term profits for shareholders. <sup>37</sup>

Of the two models, the sensitivity to stakeholders (other than shareholders), which is implicit with the 'sense-and-respond' approach, means that companies in this category are likely further along the journey towards sustainability than those aligned to a 'make-and-sell' approach. However, both approaches are far from optimal from a sustainability perspective (see table 2).

### 3. Adjustments to Business-as-usual

Paradigm shifts happen when the weight of information undermining the evidence that upholds an established mental model is too convincing to be ignored.<sup>54</sup> Mounting evidence over the decades has led to precisely this kind of questioning of BAU models.<sup>55,56,57,58,59,60,61,62</sup> There has been a wide range of responses calling for a reform to capitalism, including from outlets of business-as-usual thinking (e.g. *The Economist* in its coverage post 2007–08 crises). Popular modifications of the BAU model that have emerged over recent years include 'conscious capitalism'<sup>63</sup> and 'compassionate capitalism.<sup>64,</sup>

Drawing from Daly's conceptualisation of sustainability, two main types of sustainability evidence have emerged to indicate that business-as-usual is unsustainable. These concentrate around the ideas that:

- (1) Business-as-usual produces wellbeing outcomes (ultimate ends) that are limited in scope, unevenly spread across population groups, and delivered in such a way as to undermine wellbeing in the medium to long term (unsustainability of ends) vii 65 and
- (2) Business-as-usual does not protect the ultimate means (e.g. climate stability, ecosystem health, community health and resilience, and so forth) (unsustainability of means)

The recognition of means and ends evidence culminated in the Brundtland Commission in 1987 and the first Earth Summit in 1992, which was convened precisely to address this evidence and reconceptualise the framing, delivery patterns, and measurement of human wellbeing enhancement (development).

Beneath these two major sets of humanity-level evidence, an additional sub-category of evidence has also developed in parallel. This evidence focuses on the economic unsustainability of a business-as-usual approach to business. Taking business-as-usual's own internal logic as its starting point, it maintains that BAU models actually threaten the very profit maximisation goals that the system purports to advance viii 66.

These sets of evidence have led to two main tweaks to business-as-usual by way of response: Corporate Social Responsibility, 'CSR', and Enlightened Shareholder Value, 'ESV'.

#### 3.1 BAU response to unsustainability 1: Corporate Social Responsibility (CSR)

#### 3.1.1 'Narrow' CSR

The first, clear operational business response to business-as-usual's perceived shortcomings was 'corporate social responsibility' (CSR). Built on arguments made by management thinkers in the mid-twentieth century (before business-as-usual took hold), CSR crystalised as a distinct management theory with the publication of Archie Carroll's landmark 'pyramid' diagram in 1979 (see Figure 3).<sup>67</sup> At the time, Carroll's initial thinking was seen as a strong rebuttal of Friedman's laissez-faire view of the moral responsibilities of corporations. That said, although Carroll's approach made the case for a form of responsibility that extended beyond the act of making money within legal parameters, it endorsed the notion advanced by BAU that a business's first

vii For example, while a child born in El Salvador in 2013 is likely to live 40 times longer than in 1970, and in many countries women are less likely to die in childbirth, at the same time "Eating too much has overtaken hunger as a leading risk factor for illness", chronic diseases have overtaken infectious diseases as the biggest source of human death and depression is the leading cause of disability worldwide.<sup>65</sup>

viii According to the World Economic Forum, USD 44 trillion of economic value generation – over half the world's total GDP – is potentially at risk as a result of the dependence of business on nature and its services (WEF, 2020)

responsibility is profit-making. Hence, in the hierarchy of management concerns, corporate responsibility was positioned as subordinate to a business's primary goal of making money.



Figure 3: Carroll's 'Pyramid'68.

Carroll's radical intent has found voice in a generation of other thinkers that have sought to adapt and advance CSR as a tool for mitigating the shareholder primacy of business-as-usual. <sup>69</sup> Success here has been limited, however. When the ideals of CSR meet the realities of business-as-usual, the ideal becomes filtered in a way that aligns with its logic. Within the confines of business-as-usual thinking, the only logical way to rationalise the diversion of profits to other ends is because the near-term risks to profits associated with *not* doing so are too great, as stakeholder expectations and demands on business rose. Sometimes keeping stakeholder pressures at bay requires creating the impression of responsible behaviour rather than actual action. The link between CSR and brand management places this management approach in a similar remit to public relations (PR<sup>ix</sup>).

#### 3.1.2 Why CSR fails to substantially alter business behaviour

CSR has led to improvements in companies' ethical conduct and has resulted in some notable wellbeing

ix PR is a marketing sub-discipline that specifically acts to enhance and protect the reputation of a firm's brand (identity) in the eyes of its stakeholders. With a BAU mindset, it is entirely logical that a company would seek to utilise the financial value it diverts into societal value to maximise profits via brand-building. A Friedman-esque mode of thinking would hold that companies that failed to take such a step are derelict in their fiduciary duties to shareholders. Indeed, brand-building could be argued to be the only justifiable pretext for engaging in CSR within an orthodox BAU framework.

outcomes. However, the short-term profit motive that typically sits above any CSR decision-making results in inconsistent and ad-hoc nature of CSR actions which are not normally aligned to the core business of the firm. While many slow-burning issues might threaten a company's reputation (including a whole range of sustainability issues), companies operating within a CSR mindset tend to concentrate primarily on those that threaten near-term profits.

Levillain and Segrestin<sup>70</sup> in 2019 clearly diagnosed the constraints behind a CSR approach by noting that BAU firms "often lack the means to protect "extra-financial" missions when the dominant view among their shareholders is to expect financial and short-term return on investment. Corporate social responsibility (CSR) measures and doctrines, despite notable achievements, have fallen short of altering the dominant business rationale. In practice, any determination in that direction at managerial or executive levels can be countered at the level of the shareholders."

CSR is about protecting business-as-usual from pressure to change. Management decision-making, therefore, typically positions CSR as a supplementary 'add-on' rather than a route to transforming the business to be more sustainable. As such, CSR activities are viewed as appropriate if and when enough slack exists in the system (i.e. when expectations of profitability are being exceeded). Even then, CSR activities can typically only be justified when they pose no threat to a company's ability to produce profits in the near term. A CSR mindset may also prompt a code of value or ethics to be created as another way to make a positive impression with stakeholders. Where a self-interest profit motivation sits behind a code of ethics or values, that code is unlikely to guide actual firm behaviour.

Therefore the notion that corporate commitments to ethical conduct are a way to help resolve the unsustainability of the economy based on business-as-usual is not credible. Adding a layer of corporate responsibility onto a system that, at its base, is antithetical to values-based decision-making is fundamentally flawed. Real change can only come when the underlying logic of such a system is challenged.

In this context, the only other alternative is to force the hand of BAU companies through the heavy use of legislation. In effect, this would railroad ethics into corporate decision-making, a prospect many business-as-usual critics have historically welcomed and which many business-as-usual proponents are fearful of – and rightly so given the amount of red tape this would entail, just to keep business at a minimum level of conformity with social expectations of acceptable behaviour. The practical feasibility of a regulation-led approach to responsible management is also highly doubtful. For one, it would require a level of behavioural policing that means success is not guaranteed. Additionally, some behaviours cannot be effectively regulated or policed. A corporation can be prevented from polluting a river, for example, but it cannot be compelled to proactively care for replenishing fish stocks. Finally, such a level of policing and government 'intrusion' may lack sufficient backing from society.

CSR is best understood as a minor tweak to business-as-usual to keep the system viable, exerting minimal power over how a firm chooses to prioritise value creation. It sits firmly in the middle of the Triangle, reinforcing this myopic view (Figure 2). Arguably, not only is CSR ineffectual at meeting the wellbeing needs of stakeholders, but it is also prejudicial to those needs as it diverts stakeholder attention to supplementary corporate activities based often on those who shout loudest. For this reason, it might be appropriate to consider CSR as a distracting impediment to the pursuit of inclusive stakeholder wellbeing and genuine sustainability.

#### 3.2 BAU response to unsustainability 2: Enlightened Shareholder Value (ESV)

#### 3.2.1 What is ESV?

While CSR is a set of reactions to issues thrown up by stakeholders as the issues of unsustainability arise, 'enlightened shareholder value' (which can be extended to enlightened 'self', i.e. the firm, value more broadly, even if that isn't shareholders) or 'ESV' is about recognising that destroying the resource base on which profits rest, is not in the interests of the business, be that its shareholders or the survival of the company itself in anything but the short term. ESV is, therefore, a way of approaching business that

fundamentally recognises, and hence seeks to address, business-as-usual's threat to the ultimate means of the full suite of capitals upon which all business activity relies.

Current slow-burning, but now frighteningly apparent, threats to the world's environmental and human resources are increasingly understood, documented, and accepted by all sectors of society. Increasingly recognised as the primary custodians of how these resources are used on society's behalf, businesses are routinely judged to be failing in their stewardship of the planet's shared resources – both human and non-human. These developments are compounded by evidence that short-termism results in sub-optimal and often socially disadvantageous decisions by companies<sup>71</sup>. Such decisions, in turn, are judged to negatively affect the stability and viability of the wider economy. A case in point is the high-magnitude economic recessions of recent decades, with the global financial crisis in 2007–08 representing an archetypal example.

As a result, BAU companies face growing pressure to fundamentally address the issues they are observed to create by stakeholders who threaten to withdraw or restrict their social license to operate. This is manifested through direct action, such as boycotts and protests, reducing trust and brand loyalty, shareholder resolutions (social shareholder activism<sup>72 73</sup>), investor calls, and indirect action such as pressure on governments to introduce stricter regulatory regimes against BAU companies.

These events have led to growing widespread concern that business-as-usual may not be fit for delivering profit maximisation in anything but the very near term. The result of such short-termism is excessive benefits for business-as-usual's priority stakeholders, e.g. shareholders and, to an extent, the management, in the 'good times'. This is seen to coincide with the passing of costs onto the rest of the system (the socialisation of losses<sup>x 74</sup> or 'negative externalities'). Those picking up the bill, which can be astronomical in 'bad times' (such as in 2007-2008), include investors and stakeholders with long-term interests (e.g. pension funds).

It is becoming increasingly evident that, contrary to its own legitimising logic, business-as-usual based corporate decision-making can "often end up hurting shareholders and non-shareholder stakeholders alike". <sup>75</sup> As a result, business theorists and regulators have been more frequently advocating a concerted move towards – or, perhaps better, a return to – a prioritisation of longer-term shareholder wealth maximisation. This transformation in the time horizon of business-as-usual's driving goal forms the crux of the ESV logic <sup>76</sup>. Such a position has gained legislative endorsement, for example, in

Across much of the world, enlightened shareholder value could now comprise the aspirational norm for private corporations

the UK Companies Act (2006) and the UK Governance Code (2018). Across much of the world, enlightened shareholder value could now be said to comprise the aspirational norm for private corporations.

#### 3.2.2 How does ESV modify BAU?

ESV's adjustment from a short-term to a long-term value delivery orientation does not eliminate the focus on necessary short-term outcomes but only where this does not jeopardize long-term outcomes. Therefore, the value ESV organisations place on future outcomes may well mean that some short-term value is sacrificed to optimise longer-term value, or, ideally, that it promotes alternative decisions that optimise short and long-term outcomes simultaneously.<sup>77</sup> This reverses the tendency of short-term business-as-usual decision-making to forfeit long-term value. Graham et al., for example, found that BAU firms, "are willing to sacrifice economic value in order to meet a short-run earnings target. The preference [...] is so strong that

<sup>&</sup>lt;sup>x</sup> The concept of socialisation of losses (and privatisation of profits) is centuries old, as illustrated in this 1834 quote by US President Jackson: "I have had men watching you for a long time and I am convinced that you have used the funds of the bank to speculate in the breadstuffs of the country. When you won, you divided the profits amongst you, and when you lost, you charged it to the Bank."<sup>74</sup>

78% of the surveyed executives would give up economic value in exchange."<sup>78</sup> **Figure 4** outlines the basic premise of the increased and sustained returns that can be attained if a long-term focus is taken.

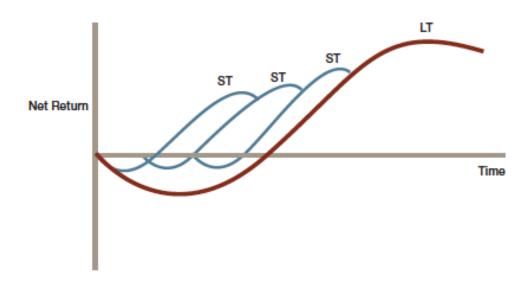


Figure 4: Return from short-term and long-term actions over time (Souder et al., 2015)<sup>77</sup>

Because enlightened shareholder value retains profit maximisation for shareholders as the focus, it does not imply a return to managerial capitalism. This long-term approach to profits unlocks systemic thinking and a greater stakeholder orientation that compels companies to better understand their broader dependencies to make decisions that are not injurious to their long-term profit maximisation.

#### 3.2.3 How does ESV align with BAU?

For an outsider looking in, enlightened shareholder value (or 'enlightened self-value' as highlighted in 3.2.1) can appear to endorse a model of business management that sees companies set out to protect shared assets and work for the wellbeing of all. ESV companies often have the appearance of a values-driven organisation because they routinely make decisions that protect and distribute value to stakeholders. Such decisions could feasibly be read as ethically motivated. Although it may well be that ESV companies have codes of ethics in place, albeit with the same challenges of low cultural support as CSR-oriented organisations, and will naturally encourage a perception of benevolent motivation, conclusions that ethical motivations underpin enlightened shareholder value actions would be erroneous. Under an ESV model, business decisions still ultimately serve the goal of profit maximisation, based on the fundamental assumptions and logic of business-as-usual; the key difference is the delivery timeframes of this profit.

Despite its long-term focus, therefore, the ability of enlightened shareholder value to deliver the level of innovation required to address threats to long-term inclusive wellbeing is questionable. Even so, it would be wrong to write off the potential of ESV as a vehicle for some degree of targeted wellbeing and for its ability

Adapted from Laverty, K. J. 1996. Economic "short-termism": The debate, the unresolved issues, and the implications for management practice and research. Academy of Management Review, 21(3): 825–860.

to innovate to protect and restore the ultimate means of the economy (bottom of the Daly triangle). A deliberate focus on long-term shareholder wealth maximisation dramatically alters business decision-making and considerably advances its potential for more sustainable outcomes (see section 3.2.4). In as much as long-term prosperity is considered "the basic condition for capitalism to succeed" (The Economist, 2019:9), then the prioritisation of future value by ESV presents the social acceptance for business-as-usual.

#### 3.2.4 Can ESV deliver sustainability?

Incorporating long-term decision-making is known to have profound and generally positive effects on a business. This is due to a heightened consideration of knock-on consequences under a long-term scenario. When optimising any outcome over the long term, including profit maximisation, organisations are obliged to take a wider and more in-depth perspective on the implications of their actions and the consequent risks these pose for the successful delivery of the outcomes they seek. How neighbouring organisations or systems may be affected, for instance, could have a bearing on the decision-making organisation's future market leverage or operating performance. Hence, ESV companies effectively broaden their horizons to encompass the 'ultimate means' at the bottom of the Daly triangle in decision-making – one of the two core aspects required for a firm to align with a sustainable economy (Figure 5).

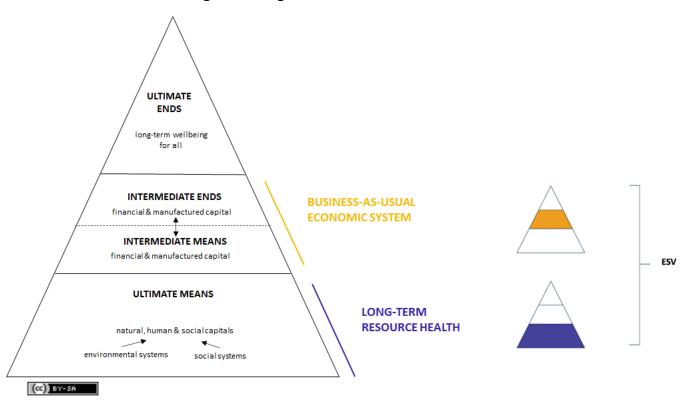


Figure 5: Enlightened Shareholder Value<sup>79</sup>

The focus on potential effects and future risks forces ESV organisations to more fully recognise the foundations on which their present and future success is built, thus leading them to a greater appreciation of their reliance on natural capital and other forms of 'capitals'. The literature refers to this type of thought process as 'systems thinking'. <sup>80</sup> It provides a strong basis for organisational sustainability because of its implicit and explicit recognition of business as an interdependent entity within an open ecosystem whose optimisation is crucial to its own future success. <sup>81</sup> This contrasts strongly with a BAU-based conceptualisation of the company, which envisions businesses operating as independent entities in a largely closed system (**Figure 2**).

For an organisation to deliver value over the long term, it is sensible to assume that it must incorporate an element of long-term thinking and strategic planning into its decision-making frameworks. Failure to do so is likely to lead to short-term actions that set in motion future constraints and risks. Balancing organisational viability and success in the here and now with the same outcomes in the future represents a common sense 'hygiene factor' (a minimum condition of operating) for any business with ambitions beyond the immediate present. Certainly, investors with concerns beyond anything but the very near term need to understand how well a company can recognise and adjust to the radical unsustainability threats that are 'baked in' to the system.

**3.2.5** Sustainability-signalling behaviours of ESV organisations When implemented successfully, the long-term focus of enlightened shareholder value helps protect the world's underlying resource base, thus supporting a vital pillar of sustainability. Once executives in ESV companies have understood their firm's negative impacts on natural and human resources, it is rational that they should seek to reduce these – for their own future business success and resilience, even if not for reasons of moral suasion. This prompts an approach to sustainability disclosure that goes beyond minimal requirements or public relations and looks instead to

"When implemented successfully, ESV's long-term focus helps protect the world's underlying resource base, thus supporting a vital pillar of sustainability."

provide a detailed analysis of a company's identification and management of its material business risks over time. This often takes the form of sophisticated materiality assessments of an organisation's multiple interdependencies on its stakeholders, including the natural environment and society at large, and a genuine drive to improve the quality of data about this. Such an analysis not only seeks to reveal how a company might affect these stakeholders but also the reverse flow of impacts: namely, how stakeholders affect the company. In both directions, these effects may be positive, negative, or neutral, or even a combination of all three. To guard against negative externalities, an ESV company will often set clear 'damage floors'.

An illustrative example is the 'do no harm' principle. This commits organisations to avoid long-term, net damage to the underlying resources on which it depends, based on the best independent evidence and integrating a prudent approach related to the uncertainty of the data and potential effect of the consequences. The insights and information emerging from materiality assessments extend well beyond the brand management focus of CSR. Instead they can form a vital input into corporate strategy, target-setting and evaluation and reward of success.

However, as described above, limitations remain regarding the extent to which enlightened shareholder value is able to innovate the radical transformation required to optimise wellbeing for all over the long-term while protecting and restoring the resource base it depends on. The science and global political institutions now routinely talk in terms of years rather than decades to fundamentally alter our approach. Enlightened shareholder value is still bound by the business-as-usual assumptions about how a market automatically creates wellbeing and the bias towards profitability as the relevant focus for a business. Hence, societal wellbeing impacts are typically judged material to the extent that they impinge on profit maximisation, but not beyond. In other words, societal wellbeing impacts are not material in their own right. BAU theory allows for no clear 'business case' to systematically consider how wellbeing outcomes may be optimised for non-shareholder stakeholders.

#### 3.2.6 ESV, regulation and ethical 'guardrails'

ESV organisations still perceive regulation and legislation as the core guide for acceptable behaviour. Rather than lobbying to reduce sustainability legislation because it threatens short-term profits (as a CSR firm may do), they are likely to lobby legislators and regulators to raise the bar for corporate behaviour to provide a 'level playing field'. In this way, incentives for reckless short-term profiteering are minimised, and companies with long-term value strategies are not unfairly disadvantaged. Such lobbying extends to arguing for legal

protections against hostile corporate takeovers and reducing short-term economic incentives that, for example, may arise from tax and subsidy arrangements for cheap but unsustainable materials. 82

Mature ESV companies (i.e. those that have embedded consideration of the ultimate means into their decision-making) are also likely to be open and transparent in their communications. In particular, these mature ESV companies manifest a desire to explain how their decisions are important for long-term success to their stakeholders. Such communication transparency is driven by a desire to maintain stakeholder support for actions that run counter to the still dominant short-term focus of business-as-usual. At a more profound level, it also demonstrates that stakeholders are a core focus of ESV companies (as discussed further below).

The transition from a CSR-dominated business-as-usual mindset to an ESV-based business-as-usual perspective is neither automatic nor obvious to company agents. ESV companies often use codes of conduct and formal declarations of a company's ethical values to clarify expectations and constrain short-term actions that may undermine long-term value creation. The introduction of such 'guardrails' marks a significant shift away from CSR. The more advanced a business is on its adoption of an ESV approach, the more robust and prudent such guardrails are likely to be, and the more they are likely to be based on high quality information. It should be noted, however, that the existence of guardrails does not in and of itself signify a transition away from CSR business-as-usual models.

Pursuing long-term profitability through close consideration of the interests of a wide set of stakeholders has an increasingly solid basis in corporate law. In the UK, section 172(1) of the revised Companies Act of 2006, for instance, states that companies should, where appropriate, think about a range of stakeholder interests when fulfilling their fiduciary duties to shareholders. This directive was enhanced by changes to the UK Corporate Governance Code (2018), which emphasised the importance of a long-term approach to governance matters. The Code's focus lies primarily on shareholders, but stakeholders of all kinds are also contained within its purview. The 2019 update to the Companies Act also requires organisations of a certain size to disclose how they are taking stakeholders into account when delivering their purpose, as outlined in section 172 (a–f). Several countries are now advancing legislation along similar lines.

#### 3.2.7 ESV and stakeholder theory

Companies with advanced ESV strategies and practices often appear to be stakeholder-driven (see section 5). This is because the resources that the business now seeks to protect are, in the main, controlled by its stakeholders. Understanding what 'value' means for each stakeholder and striving to deliver it is important. It upholds the integrity of the resources and the relationships that enable effective supply over the longer term. Thus, although the core motivations of ESV-based capitalism and stakeholder capitalism are different, there is a close affinity between the two. As Business Ethics scholar Pamela Queen notes: "Maximizing long-term shareholder value as a corporate objective can be compatible with stakeholder theory when an enlightened shareholder maximization strategy is embraced." 83 xi

#### 3.2.8 ESV and sustainability: conclusion

The language and behaviours of ESV companies bear a close resemblance to those of companies that believe businesses exist to act in the best interests of society and proactively deliver optimal wellbeing for all. In reality, however, the primary organisational logic of ESV firms remains rooted in the assumptions of business-as-usual, including the prioritisation of profit maximisation as the primary way a firm can play its part in the good of society. As a consequence, sustainability's core emphasis on the 'ultimate ends' of the

xi It is also important to recognise that, despite appearances, stakeholder capitalism and purpose-driven capitalism are not the same. The main difference between the two rests on purpose's focus on serving the long-term wellbeing of specific stakeholders. In contrast, the focus of stakeholder capitalism is on balancing value for *all* stakeholders. See the second paper for an extended discussion.

Daly triangle (Figure 5) is largely absent from ESV companies' mentality and decision-making frameworks. Mature ESV companies may deliver wellbeing outcomes as a by-product of the objective of profit-maximisation, i.e. win-win projects as part of creating shared value (CSV)<sup>84</sup> or through addressing threats to the ultimate means. Rooted firmly, however, in existing business models and market thinking, including the assumption that wellbeing is delivered by the market economy and is not an individual company concern, ESV firms are unlikely to radically diverge to pursue the kinds of business investments and innovations needed to realign our systems and processes for long-term wellbeing delivery as discussed in section 1. Hence, it can be justifiably assumed that ESV approaches will, at best, achieve only a partial contribution to the global sustainability challenge. How significant their potential contribution will be will vary according to industry sector, the organisation's particular context, culture, and history and how far down their ESV journey they are.

# 4. The organisations we want? The purpose-driven organisation logic

If we are indeed seeking to bring about organisations that can deliver on the *ultimate ends* and achieve this in a durable and equitable way by protecting and restoring the *ultimate means* it is not enough to make tweaks to business-as-usual, such as CSR and ESV. Instead, a more fundamental departure from business-as-usual is required. We argue that a purpose-driven approach to business management and strategy constitutes the departure needed. If implemented robustly, this alternative to business-as-usual can successfully align organisations with a sustainable economy and society's long-term interest.

#### 4.1 What is a purpose-driven organisation?

As we will analyse below, an organisational purpose is a reason for a firm to exist (its primary value generation goal) that is a specific and direct contribution to the meaningful ultimate ends of society – wellbeing. Profits, and all other types of capital, are then viewed by the firm as a means to that end.

ULTIMATE ENDS

long-term wellbeing for all

INTERMEDIATE ENDS
financial & manufactured capital

INTERMEDIATE MEANS
financial & manufactured capital

ULTIMATE MEANS

natural, human & social capitals
environmental systems

Social systems

Figure 6. Purpose

For a purpose to be achieved in anything but the short-term, it needs to be deliberately delivered in a way that protects and restores the ultimate means so that the ultimate ends of the economy can be delivered into the long-term for everyone. Even though technically a company can have a purpose by focusing on delivering wellbeing for a specific group and do this without considering the ultimate means, it is hard to consider this to be a truly purpose-driven firm because the delivery of the purpose would be simultaneously undermining the goal.

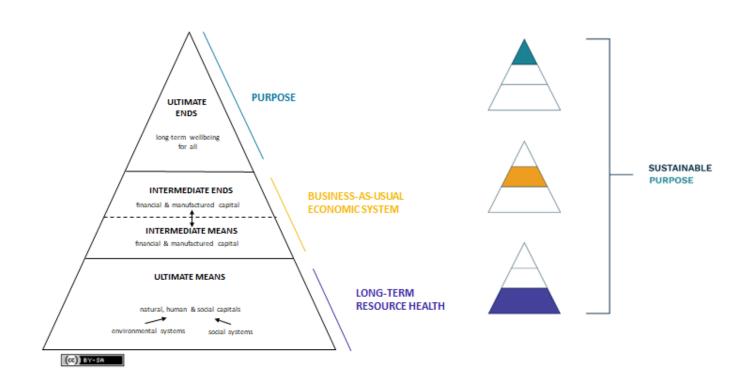


Figure 7: Purpose and sustainability<sup>85</sup>

Hence, a truly purpose-driven company is fundamentally aligned with sustainability: where the firm's reason to exist is anchored to wellbeing, for all, over the longer term, i.e. sustainability, encompassing both the top and bottom of the Daly Triangle (see figure 7).

Purpose represents a rejection of the business-as-usual idea that a well-functioning market will *automatically* produce optimal wellbeing outcomes for society. Instead, purpose anchors a firm, and its accountability, to these ultimate outcomes – bringing a specific strategy to achieve wellbeing outcomes into the firm, encoding it as its specific organisational purpose, for which it innovates. In this way, purpose is a firm-level expression of a 'Wellbeing Economy' where a focus on narrow measures of financial value, such as GDP, are being replaced with measures that directly measure the ultimate wellbeing end of an economy. The Organisation for Economic Co-operation and Development (OECD)'s description of a wellbeing economy, which is the macro level expression of purpose, describes this as "a virtuous circle in which citizens' wellbeing drives economic prosperity, stability and resilience, and vice-versa those good macroeconomic outcomes allow to sustain wellbeing investments over time". 86

The move to a firm oriented to a specifically defined contribution to a positive future for society is one that some contemporary corporate governance academics have argued is long overdue. This is because companies are enterprises "formed to shape the future and to transform our environment" and hence are required to declare their normative stance in relation to the world. Hence purpose "allows collective and sustainable engagement to address contemporary challenges" and "stabilizes the strategic orientations".<sup>71</sup>

In shifting a firm's core reason to exist to a meaningful human end, a purpose-driven approach marks a major departure from business-as-usual CSR and ESV that carries with it many fundamental changes for business that we will be explored in more detail in the subsequent papers in this series. These changes

include, among others, consideration about: why a business organisation exists in the first place; how it defines what 'value' is; what drives humans and their behaviour and what the organisation's relationship with society should be; what role its governing body has; and, what its organisational culture should ideally look like. Consequently, as we define it, a purpose-driven logic creates a new coherent mental map (paradigm) to guide organisational decision-making towards a sustainable future. Below we summarise the conceptual basis of purpose. This is followed by the key features of purpose and why, therefore, purpose is aligned to delivering sustainability in a way that business-as-usual, be it a CSR or ESV, is not.

#### 4.2 Understanding purpose

Prior to the neoclassical orthodoxies that came to dominate economic thought in the mid-twentieth century, as outlined at the beginning of this paper, management thinkers argued for models of business organisation that were more human-oriented and more grounded in social purpose. Such arguments were crystalised in Chester Barnard's well-known 1938 work, *The Functions of the Executive*, <sup>87</sup> which endorses the importance of business leaders imbuing their organisations with an emotionally meaningful purpose. <sup>xii</sup> 88 Works by Peters and Waterman, <sup>89</sup> Clark <sup>90</sup> and Kreps <sup>91</sup> also introduced an emotionally engaging role for a company beyond profit.

During the twentieth century, the power and influence of modern corporations grew in a manner that few had initially envisaged. In response to this unanticipated phenomenon, questions began to emerge about the precise responsibilities of business. An illustrative example is the 1953 publication of *Social Responsibilities* of the Businessman by the US economist Howard Bowen.<sup>26</sup> In the book, Bowen cites (p.44) a 1946 survey by *Fortune* magazine of US executives, 93.5% of whom concurred that their responsibilities included the full consequences of their actions, i.e. (i.e. not simply those pertaining to their company's profit and loss statement).

These voices, however, were notably side-lined with the rise and dominance of business-as-usual. From this wide conceptualisation of corporate responsibility, economists and business theorists developed an increasingly narrow focus on the drivers of profit maximisation. The effects of this shift in theoretical preoccupation are observed in a recent paper in *The Academy of Management Annals* that notes the "little attention" was given to "ethical aspects of business or management" from the late 1930s onwards. The same could well be said for the human or emotional aspects of business. Instead, management education, the paper continues, became "embedded in a search for theories that allowed more certainty, prediction and behavioural control". <sup>92</sup> Peculiarly, this tendency in academic debate appears to have run against ongoing managerial concern about threats to public wellbeing and the role of business in addressing them <sup>9394</sup>. This trend continues, with a recent survey showing, for example, the majority of senior business executives believe they should actively address social issues, "whether or not business helps to create those problems and whether profits are realized". <sup>95</sup>

Such concerns were not entirely overlooked in the literature, however. As mentioned previously, Archie Carroll's landmark 1979 publication helped accelerate academic debate about business's social responsibility at both theoretical and applied levels. Among other lines of thought, interest in stakeholder theory has been growing over the decades<sup>96</sup>. While a vast literature base across the disciplines in the corporate responsibility of business now exists, the specific idea of a concerted focus on the concept of a purpose-driven organisation marks a relatively recent addition. Bartlett and Ghoshal's 1994 *Harvard Business Review* article 'Beyond Strategy to Purpose'<sup>97</sup> was among the first to give serious thought to the economic, business and social rationale for modern companies to adopt an emotionally meaningful purpose as a central focus. In the past decade or so, purpose has rapidly gained attention, with a variety of academic publications focused on the theme. <sup>98</sup> <sup>99</sup> <sup>100</sup> <sup>101</sup> <sup>102</sup> <sup>103</sup> <sup>104</sup> <sup>105</sup> <sup>106</sup> <sup>107</sup>

xii 'Meaningful' is defined here as relating to the desire of humans to live a purposeful life in service of others as per Frankl.<sup>88</sup>

Even so, with a few notable exceptions (see, for example, Grayson et al. 2018<sup>108</sup>, Hurth et al. 2018, <sup>110</sup> and Gartenberg et al. 2019<sup>109</sup>), empirical research on the subject has been largely lacking. Partly this is due to the fact that the literature lacks consensus around the definitional understanding of purpose, and hence the theoretical foundations of purpose are still emerging. <sup>104</sup> One popular tendency is to interpret purpose in value-neutral terms. Typically, this situates it as beyond profit maximisation but leaves unanswered the question of its intended nature and its exact relationship with profits. <sup>113</sup> Another common position grounds purpose explicitly in moral terms, placing the onus on it to orientate a business towards general ethical outcomes as opposed to unethical outcomes <sup>xiii</sup>.

Efforts to develop the theoretical basis and conceptual parameters of purpose continue. In a University of Cambridge working paper<sup>110</sup> and the associated leadership guide published by the Chartered Management Institute<sup>81</sup>, Victoria Hurth, Charlie Ebert and Jaideep Prabhu present a comprehensive literature review (Table 1, pp 55) as well as conceptual insights from the authors' own qualitative research of companies with strong (self-declared) 'purpose-driven' strategies. They define an organisational purpose as:

"an organization's meaningful and enduring reason to exist that aligns with long-term financial performance, provides a clear context for daily decision making, and unifies and motivates relevant stakeholders". <sup>110</sup>

At the core of the definition lies the human need to live a meaningful life that is purposeful by being in service to the wellbeing of others. At the heart of the concept of purpose then, is a conduit to the larger human philosophical and psychological preoccupation with meaningfulness. <sup>111</sup> Hence the focus of purpose on delivering wellbeing connects purpose to the ultimate ends of an economy and at the same time serves to unleash the human drive to work energetically, to the extent that the meaningful impact on the lives of others as a result of that work is clear to them. <sup>81</sup>

The definition also highlights distinct features of purpose, such as it being enduring, aligned to (yet different from) financial performance, and lived out (rather than an abstract idea). It also makes clear that purpose plays a central role in both decision-making and engagement with stakeholders. Hence a purpose-*driven* company can be considered one where its purpose is the core driver of its actions.

The authors also note how purpose-driven companies ultimately share the same meta-frame for their activities – to contribute to the wellbeing of society as a whole over the long term. For this reason, purpose-driven companies can be said to be unified in a shared direction while at the same time differentiated by their specific purpose.

In the related leadership guide, Ebert et al. also caution against the widespread perception of purpose as a supplementary or subordinate goal of business, arguing, as others such as the British Academy, have <sup>112</sup> for it to instead be considered the primary reason for an organisation's existence (see section 5.3, 'Hybrid organisations') which other concerns are subordinate to.

Complementary to the above definition, Colin Mayer, a professor of management studies at Oxford University's Saïd Business School, offers specificity regarding the nature of a meaningful purpose (Mayer 2018):<sup>113</sup>

xiii This is the position of Bartlett and Ghoshal, see for instance HBR, 1994: "the statement of a company's moral response to its broadly defined responsibilities, not an amoral plan for exploiting commercial opportunity", or "something that is perceived as producing a social benefit over and above the tangible pecuniary payoff that is shared by the principal and the agent".

"The purpose of business is to produce profitable solutions to the problems of people and planet, and, in the process, it produces profits."

The British Academy develops this idea as part of its Future of the Corporation programme. In 2020 the Academy published an erudite 44-page white paper entitled *Principles for Purposeful Business*. Here, it offered a simplified yet expanded definition to that of Mayer. An organisation's purpose, it argues, is summed up by the:

"Positive benefit of producing profitable solutions to problems of people and planet." 112

These various definitions and descriptions help make explicit some common views of what is meaningful for a company to pursue. However, the question remains as to what the key problems that business should ideally be addressing are to maximise wellbeing for everyone over the longer term. This is important as it influences what contribution to the 'ultimate ends' business might choose as their purpose and what the minimum level of protection and restoration of the 'ultimate means' looks like in delivering it. <sup>114</sup> One of the fundamental questions for an organisation is: in the 'marketplace of wellbeing', what are we uniquely placed and motivated to achieve that contributes to this shared goal?

#### 4.3 The key features of purpose

#### 4.3.1 From financial income to wellbeing outcomes

The first core shift of purpose from business-a-usual is a fundamentally different interpretation of the role of a business in a market. A purpose-driven organisation rejects the business-as-usual premise that wellbeing is not a company's *direct* concern. Similarly, it refutes the core BAU tenet of wellbeing emerging naturally from market dynamics when, and as long as, companies focus on profit maximisation.

Instead, a purpose-driven company *internalises* particular wellbeing outcomes as the ultimate value it is trying to create and holds itself accountable to stakeholders to deliver them.

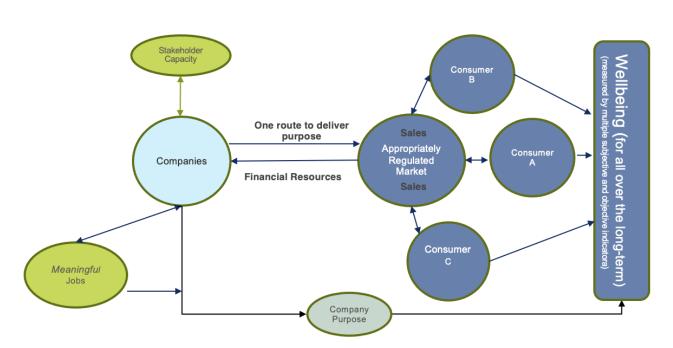


Figure 8: Purpose and the wellbeing logic of the market

In prioritising long term wellbeing outcomes for others, purpose-driven firms tap into the deep motivation of employees and other stakeholders to live a meaningful life. This, combined with the urgent nature of the threats to that wellbeing that is increasingly understood, and the unshackling from many normative scripts of BAU firms, provides the perfect platform for galvanising transformative innovation.

#### 4.3.2 Treating shareholders as stakeholders

A purpose-driven logic shifts the debate away from 'in whose benefit' and 'on whose interest does the governance system act' to 'what is the contribution to a desirable future that the organisation commits to create' – in other words, the long-term wellbeing challenge on which the company will focus. This renews the focus on the authority of directors and management to define and deliver the organisation's meaningful purpose. The company's accountability shifts from proving to shareholders that profits have been maximised and wealth has been protected and is instead directed primarily to society. As such, shareholders become a crucial stakeholder in the delivery of the purpose, along with others that the company relies on<sup>70</sup>.

When the purpose and how it is delivered becomes the core focus of value creation and accountability, all other parts of the system become stakeholders who are either material to delivering the purpose or materially affected by it or how it is delivered. As a result, these stakeholders' interests and influence need to be understood and managed with respect to the purpose. This stakeholder system includes shareholders who move from being the primary beneficiary stakeholder to a 'delivery' stakeholder (albeit having specific but limited legal powers). As such, shareholders, like all other stakeholders, need to be serviced by the organisation to preserve and restore the ultimate ends and in return for their support, which is recognised as essential to the delivery of the company purpose.

Because directors and management decide the purpose of the enterprise<sup>115</sup>, they can pursue a purpose to the extent that they are able, without the express approval of shareholders. In this instance, shareholders are also managed as stakeholders, albeit often with some specific control rights. However, for the accountability system to be solidified and the governance system to be fully aligned to the purpose, the

purpose would need to be written into the legal constituting document. Therefore, as with corporate forms such as B-Corp and Société à Mission, this requires shareholders to voluntarily give up some (in the case of a hybrid firm where a purpose maximisation and profit maximisation are a dual goal) or all of their control rights. These aspects will be explored in more detail in the final paper of this series focused on governance.

As with any other group, shareholders may be chosen as the object of the purpose (see section 5.1, Box 2 'The three stakeholder levels of purpose'). However, for them to be served primarily within a purpose-driven firm, their long-term *wellbeing* and not just their financial interests, would need to be the defining goal, something some have specifically argued for<sup>116</sup>. The focus on shareholders as stakeholders gives further motivation for those arguing for the segmentation of the shareholder market, e.g. engaged owners and short-term investors. Furthermore, situating shareholders as delivery stakeholders spurs those who argue that the shareholder group is a non-homogenous group (e.g. engaged owners and short-term investors). Different shareholders, it is argued, have different rights and responsibilities based on their relationship with the firm and as such what constitutes 'ownership' of a company is contested<sup>117</sup>.

#### 4.3.3 Long-term systemic focus

Purpose-driven companies, similar to ESV ones, embed a long-term approach to value creation. Where they differ is in the source of the motivation for such value creation, that is, wellbeing outcomes rather than profits. This divergence has important implications for how an organisation realises its long-term objectives.

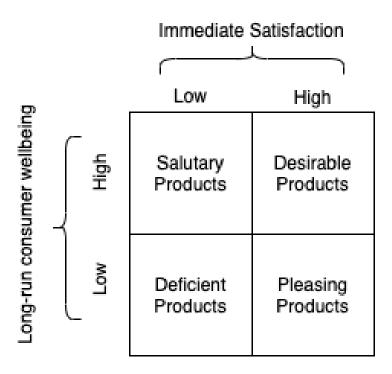
As a contribution to durable and equitable wellbeing, purpose is based on ensuring that wellbeing can be delivered over the long term. This is true even when a company's purpose focuses on the wellbeing of a particular group(s) whose needs are near-term. Consequently, when delivering purpose, the wellbeing of others should be optimised where possible and certainly not diminished.

Self-evidently, purpose-driven companies need to become specialised in identifying and understanding the preferred long-term wellbeing outcomes of its focal group(s) and the value required by associated stakeholders. This may lead such companies to form partnerships with non-governmental organisations (NGOs) or pursue other innovative methods of evidence gathering. Once the desired set of outcomes is determined, to determine the best strategy, purpose-driven companies need to work actively with their stakeholders and, potentially, specialist intermediaries to plot a dynamic 'theory of change' for achieving the wellbeing outcomes they desire. These theories of change inform and shape companies' subsequent strategies for creating the value ascribed by their purpose.

By being clear about the long-term end outcome (purpose) and building co-creative relationships with focal stakeholders to lead the transition from the present to that future state, purpose-driven companies can walk the tightrope between delivering short-term and long-term wellbeing for those groups. This can only be achieved while actively adjusting long-held assumptions about which products and services can best deliver wellbeing – something that has been routinely manipulated by BAU firms seeking to maximise financial returns <sup>118</sup>. Hurth and Whittlesea define this purpose-aligned approach to value creation and marketing as a 'guide-and-co-create' approach, which contrasts with make-and-sell and sense-and-respond approaches of BAU firms. <sup>50</sup> Their work builds on previous thinking by Kotler and Levy. <sup>119</sup> As laid out in Figure 9, Kotler and Levy sought to determine how organisations could resolve the tension between delivering wellbeing in both the short and long terms. In the illustration provided, tension relates to the goods and services that the company in question is set up to create. Kotler and Levy argue that a company should produce products and services that do not just respond to peoples' short-term desires but that are also genuinely serving their long-term wellbeing.

xiv "A theory of change is a description of why a particular way of working will be effective, showing how change happens in the short, medium and long term to achieve the intended impact": https://knowhow.ncvo.org.uk/how-to/how-to-build-a-theory-of-change

Figure 9: Delivering value that meets long-term and short-term wellbeing. Adapted from Kotler and Levy (1969)<sup>120</sup>



#### 4.4 How does purpose create sustainability?

As described previously, being 'purpose-driven' involves a company having a clear, enduring, and meaningful reason to exist that is focused on a contribution to long-term wellbeing for all (sustainability) as well as providing unambiguous, values-based guidance about how to achieve this in a way that protects and restores the ultimate means on which long-term wellbeing for all rests. Interpreted robustly, therefore, purpose represents the operationalising of sustainability. In practical terms, given that the meta-objective of organisational purpose is 'long-term wellbeing for all', whilst recognising that trade-offs will be necessary purpose-driven firms will guard against inadvertently reducing the wellbeing of others, including future generations, in the process of delivering the purpose. In contributing to the ultimate end of wellbeing, organisational purposes either directly improve wellbeing (e.g. improving financial inclusion or health) or indirectly advance wellbeing by addressing an issue that underpins wellbeing (e.g. reducing structural inequality and protecting and restoring nature).

#### Three underlying powers of purpose: clarity, meaningfulness and authenticity

Purpose has been widely recognised for its ability to create strong instrumental value for organisations, i.e. increase outcomes such as customer loyalty and employee engagement that are 'instrumental' to achieving the central organisational goal or purpose, including financial value. <sup>120</sup> <sup>121</sup> It is proposed here that there are three core powers likely to be behind this recognition: clarity, meaningfulness and authenticity.

#### Clarity: purpose as the persistent, visible strategic anchor

Purpose provides clarity at the highest levels of the organisation <sup>122</sup> as well as reducing issues where there are differing views or uncertainty of direction. <sup>123,124</sup>

Purpose provides a clear statement of how the firm intends to generate value that, because it is an expression of the core identity of a company, endures, normally beyond the life of a CEO or even a board. This means stakeholders can build a personal and cultural relationship with the purpose and come to understand how to optimally deliver against it dynamically, beyond the declared strategy which may have become sub-optimal. The persistence and shared meaning of a purpose also means that purpose-driven companies consult the purpose to make and justify decisions, which is particularly useful where these decisions are controversial. This is a level of richness and consistency of decision-making that is not possible where the fundamental reason to exist is based on the accumulation of a fungible intermediary currency (money) and where fast-moving strategy is the core meaning-rich vehicle for stakeholder decisions.

For a BAU company, the highest-level strategic frame is the maximisation of profits. As such, stakeholders can only determine what a 'best' course of action is based on an assessment of the likely monetary accumulation. Strategy built on business-as-usual thinking will provide more details to help decision-making (e.g. optimise market share in market 'x'). But this strategy tends, and usually needs, to change frequently to optimise accumulation change. Profit maximisation, therefore, does not provide a fixed reference point against which an organisation's culture and processes can mature; and because money is a fungible, intermediary asset, it does not have the tangible quality and quantity features of a wellbeing outcome to which a purpose is anchored.

To garner stakeholder support, BAU firms often attempt to convince stakeholders that profit-maximisation strategies, e.g., provide high-quality customer service, are as good as having their best interests as the core firm motivation. At best, such efforts are seen as a temporary distraction. At worst, they build scepticism and confuse organisational identity.

Meaningfulness: 'humanising' the view of human behaviour and motivating action

Purpose is the very central value generation motivation of a company. It is therefore foundational to an organisation's identity, <sup>97</sup> along with its values. <sup>125</sup>, <sup>126</sup> Hence, being purpose-driven (for individuals or a collection of individuals in an organisation) is, at its heart, a motivational stance underpinning action-focused intent. When an organisation shifts from being primarily When an organisation shifts from primarily being driven by self-interest to being primarily driven by a desire to serve the wellbeing of others (purposefulness), this necessarily gets translated to the organisation's view of human behaviour in general. As the sustainable economy academic Tim Jackson observes, once "the simple economic model of consumer behaviour is abandoned, a host of other possible policy interventions present themselves" <sup>127</sup>. Whilst recognising that humans are complex, rather than assuming that people (and organisations as a group of people) are primarily self-interested and rational, a purpose-driven organisation assumes that at a fundamental level they are primarily purpose-driven and emotional. As Daniel Pink, aligned with work by Mihaly Csikszentmihalyi <sup>128</sup> summarises, financial interest is a hygiene factor that needs to be met but purpose (along with autonomy to pursue it and mastery of it) are what fundamentally drives humans. In other words,

improving the long-term wellbeing of others and helping solve related challenges is a potently powerful motivation force for individual and collective human behaviour. <sup>129,130,131,132</sup>

The organisational purpose is, therefore, meaningful to individuals (purposeful) and hence provides a deep motivation to deliver the purpose for people within the organisation's stakeholder constellation. As Robert Quinn and Arjun Thakor summarise: "A higher purpose is not about economic exchanges. It reflects something more aspirational. It explains how the people involved with an organization are making a difference, gives them a sense of meaning, and draws their support." This means that stakeholders are likely to go 'above and beyond' to achieve the purpose because knowing they contributed to the wellbeing of others through their actions will bring them direct, personal rewards.

a range of pathways that connect the core powers of purpose to the positive instrumental outcomes, such as customer engagement. The business literature is only beginning to explore these pathways within the context of purpose-driven organisations; however, insights from a number of other disciplines such as psychology, anthropology and sociology are germane to the theme and have considerable crossover value.

#### Authenticity: the basis of trust

The third core 'power of purpose' is an expression of core, meaningful intent. It, therefore, encourages openness and transparency about the fundamental motivations of an organisation. This is for two primary reasons: (1) an organisation will be proud of its genuine motivation if and when this motivation is directly related to universal human values - the norms that underpin international norms of acceptable behaviour<sup>xv</sup>; (2) an organisation knows that opening up will improve alignment with stakeholders to help them deliver the organisation's purpose. Authenticity motivates transparency. Such transparency, in turn, allows deep connectivity, which forms the basis of trusting relationships with stakeholders. <sup>134</sup> Relationships of this nature give rise to positive outcomes. Research reveals, for example, that manager trustworthiness increases the performance of pro-socially motivated individuals. <sup>135</sup>

Business-as-usual companies are generally reluctant to be fully transparent about their motivation (i.e. profit maximisation) which is understandable given this is unlikely to engender goodwill among many stakeholders who are unlikely to go the extra mile to enhance the wealth of the firm's shareholders. This lack of transparency, in turn, leads to problems in winning trust. As a BAU company, exposing or hiding that the real reason you are providing stakeholders with a product is not that you think it will optimise their wellbeing, but that ultimately, it will make the most amount of money for shareholders is not a good foundation for a trusting, healthy relationship. For many stakeholders, this will reduce the amount of goodwill they are likely to afford. Even if a BAU company thinks it offers the best product compared to alternatives, they are likely to hold back from really opening up about what drives the business. This is because it is generally understood that self-serving motivations create scepticism in others, raise barriers to engagement and increase the costs of transactions. This means that BAU companies are not able to create the level of openness and transparency required for deep trust.

ΧV

#### ISO26000:2010 defines international norms of behaviour as:

expectations of socially responsible organizational behaviour derived from customary international law, generally accepted *principles* (3.2.1) of international law, or intergovernmental agreements that are universally or nearly universally recognized

Note 1 to entry: Intergovernmental agreements include treaties and conventions.

Note 2 to entry: Although customary international law, generally accepted principles of international law and intergovernmental agreements are directed primarily at states, they express goals and principles to which all organizations (3.1.3) can aspire.

Note 3 to entry: International norms of behaviour evolve over time.

In summary, sustainability can be seen as conceptually locked into purpose (as conceptualised in this paper). It serves to align the interests of society, business, nature and the individual's desire for meaning in a way that other operational business sustainability concepts have so far failed to do. This provides the foundation for the accelerated innovation needed to reverse unsustainability, but this will only be achieved through a considerate approach to defining and delivering the purpose.

Table 2 provides an overview of the logics described and compares the differences of approaches across key areas that will inform how a business thinks and acts.

Table 2: Key differences and similarities between different organisational logics

		PURPOSE-DRIVEN CAPITALISM			
Organisational logic	BAU/Make-and- sell	BAU/Sense-and- Respond	BAU/ CSR	BAU/ ESV	PURPOSE
Aligned economic/ business theory	Classical	Neo-classical Marketing Concept	Neo-classical	Neo-classical	Purpose-driven/ ecological economics
Ultimate organisation value focus	Shareholder Return (profit maximisation)	Shareholder Return (profit maximisation)	Shareholder Return (profit maximisation)	Shareholder Return (profit maximisation)	Wellbeing for society Not reducing wellbeing for others in the process and enhancing where possible
Primary intermediate value focus	Sales. Costs	Market growth Market share Customer satisfaction	Depends on whether the company is make- and-sell or sense- and-respond orientated	Depends on whether the company is make-and-sell or sense-and-respond orientated Health of dependant resources (capitals).	Intermediary outcomes to wellbeing targeted Health of dependant resources (including requisite profits for shareholders)
Time horizon for value creation	Short-term	Short-term	Short-term	Long-term	Long-term
Primary measure of value	Increasing sales. Reducing costs	Satisfying customer preferences	Depends on whether the company is make- and-sell or sense- and-respond orientated	Depends on whether the company is make- and-sell or sense- and-respond orientated	Wellbeing outcomes
Innovation starting point	Internal (existing assets and capacity)	External (market insights re customer preferences and competition)	Depends on whether the company is make- and-sell or sense- and-respond orientated	Depends on whether the company is make- and-sell or sense- and-respond orientated	Understanding what will achieve the wellbeing outcome of the purpose
Primary view of human motivation	Self-interested	Self-interested	Self-interested	Self-interested	Purpose-driven
Approach to stakeholders	Resource to be managed	Resource to be managed	Resource to be managed and source of risk to near-term profits	Instrumental to long-term profit maximisation	Instrumental in setting purpose and monitoring/ guiding the approach. Core to value creation

Approach to regulation	Constraint to short-term profits. Active lobbying to protect profits (where reputation not at threat)	Constraint to short-term profits. Active lobbying to protect profits (where reputation not at threat)	Constraint to short-term profits Active lobbying to protect profits (where reputation not at threat)	Core guide to acceptable behaviour Proactive lobbying for a level playing field for long-termism	Vital lever for change Company behaviour oriented to society, above regulation
Ability to address sustainability	Very low	Low	Low (very low if make- and-sell orientated)	Medium (low if make-and-sell orientated)	High

As the following analysis shows, purpose-driven companies are able to open up to the very core of their motivations, be honest about their inability to solve such grand challenges alone, and hence build deeper stakeholder relationships. Even if they are early in their purpose journey, they are able to be open about where on the journey they are and the meaningfulness of their ultimate goal. This can be used to engage stakeholders to help accelerate the journey. Furthermore, purpose-driven companies will be held to account by stakeholders on the extent to which they pursue and achieve their purpose, including but not confined to profit alone.

For a BAU organisation that is currently set up to deliver short-term outcomes for stakeholders for short-term monetary returns, moving to a more open and transparent approach that comes with purpose is not easy. CSR, and even ESV companies, have found that stakeholders remain sceptical about their motivations when they have sought to engage them on plans and strategies to address climate change, biodiversity loss or health, for example. For those faced with such barriers, it should be recognised that stakeholders need to remain sceptical to provide critical challenge and that re-building the foundations of trusting relationships takes time and requires consistent and authentic actions. Due to its clear, enduring and meaningful nature, purpose provides the frame for that progress.

# 5. Other forms of organisational logic

## 5.1 Stakeholder-driven logic: a type of purpose-driven or a distinct logic?

Broadly, stakeholder capitalism is a system of capitalism focused on delivering value for all stakeholders rather than just for shareholders. \*\*Vi\* Stakeholder capitalism has been likened to managerial capitalism, the prevalent form before Friedman, because of the levels of cooperation between the state (which in turn is assumed to be representing all stakeholders) and the company. Equally, it also shares parallels with what is known as neo-corporatism "whereby business, labour, and other social groups are accepted as partners" in shaping the balance between marketisation and social protection. \*\*136\* A more accurate comparison with stakeholder capitalism is arguably 'collective capitalism' because this form of managerialism implicitly recognises the decision-making power of a small group of salaried managers and views the organisation as a collection of interests that the organisation holds in trust and that need to be balanced. \*\*28\*

The break that stakeholder capitalism represents from business-as-usual thinking is summarised by Marc Benioff, CEO and Chairman of Salesforce: "Capitalism, as we know it, is dead. We're going to see a new kind of capitalism—and it won't be the Milton Friedman capitalism, that is just about making money. The new capitalism is that businesses are here to serve their shareholders, but also their stakeholders—employees, customers, public schools, homeless and the planet." 137

While many, including the US Business Roundtable, Larry Fink and academics such as Bebchuck have sought to equate purpose-driven capitalism with stakeholder-capitalism — and while they can overlap, they are in fact distinct approaches.

Purpose can relate to stakeholders and 'stakeholderism' in one of three ways (see box 2): stakeholders as the 'meta-purpose'; stakeholders as the object of the purpose, and; stakeholders as co-delivery partners.

# Box 2: The three stakeholder levels of purpose

# LEVEL 1. Stakeholders as the meta object – the sum of all company purposes and the macro goal of a purpose-driven economy.

In a purpose-driven or wellbeing economy (as defined above), the goal is for companies to directly advance the sustainable economic project of long-term wellbeing for all. Hence, to say that purpose is about "serving all stakeholders" <sup>138</sup> (as per the US Business Roundtable's statement), is automatically true at the macroeconomic level. At this macro level, arguably serving all stakeholders is also the goal of business-as-usual— in that the assumption is that the market functions to optimise welfare across society as a whole, and that in focusing on profit maximisation, BAU firms are, ultimately, stakeholder oriented. The difference lies in that, for a purpose-driven company, a valid contribution to the goal of long-term wellbeing can only be discerned, delivered, measured and held accountable through engagement and understanding of stakeholders. This is how purpose addresses the concerns (see section 2), that the ideological views of a few should not determine how shared, or investor supplied, resources are utilised.

xvi ESV includes a stakeholder focus, but only instrumentally in service of profit maximisation – because there is a core recognition that stakeholders are vital to delivering long-term profitability. A purpose-driven logic also includes an instrumental stakeholder focus, but in service of the long-term achievement of its purpose.

#### LEVEL 2. Stakeholders as the object of the purpose.

In deciding the purpose, a firm necessarily makes decisions about who it is serving primarily. If a firm decided that serving the wellbeing needs of all stakeholders equally is the purpose, then stakeholderism and purpose would overlap. Typically, to bring strategic clarity to the organisation, the purpose is scoped more specifically. For example, a purpose could be to tackle deforestation as a driver of wellbeing destruction. This is a solution that serves all stakeholders but is not about strategically servicing them on a day-to-day basis. Alternatively, purposes can be oriented towards one single stakeholder (e.g. people with financial difficulties). Where there is more than one intended beneficiary group, ideally a company would indicate a hierarchy within its target stakeholders (e.g. Johnson & Johnson's Credo<sup>139</sup>). Such a delineation can be done in the purpose elaboration process (discussed in the second paper). Often when purpose is critiqued, it is done based on the erroneous assumption that all purpose-driven organisations serve all stakeholders as their operational purpose<sup>140</sup>.

#### LEVEL 3. Stakeholders as co-delivery partners.

As outlined above, purpose recognises that an intricate co-dependency exists between a company and its stakeholders. This implies a multi-stakeholder approach as a tool delivering purpose. Purpose also presupposes a protective approach to stakeholders, ensuring no harm is done to their wellbeing. This derives from the stakeholder-wide meta-purpose (long-term wellbeing for all) that sits above individual company purposes.

At the heart of stakeholder capitalism theory is a question of what value is to be distributed, and to whom. As Edward Freeman states: "It is the executive's job to [...] create as much value as possible for stakeholders and to manage the distribution of that value". For a stakeholder-oriented company, therefore, its chief objective would be to situate balancing the value of *all* stakeholders as its core purpose. However different approaches to 'stakeholder value' will derive from different types of organisations. A purpose-driven organisation will focus on optimising the long-term wellbeing of those stakeholders that are included in the scope of its purpose. A BAU organisation focused on profit maximisation may be stakeholder oriented because it focuses on distributing financial capital across all stakeholders rather than just for shareholders.

Although stakeholder capitalism and purpose are often used interchangeably, the reality is quite different. While stakeholderism is about strategically balancing value for all stakeholders, in contrast, purpose-driven organisations identify specific ways to deliver specific wellbeing outcomes to specific stakeholders. Importantly, this driving purpose is ultimately anchored to the service of all stakeholder wellbeing in the long term, the meta-purpose. It also embeds an explicit concern for helping to create healthy social and environmental systems upon which all stakeholders depend.

This change in focus makes a big difference impact to how effectively and efficiently an organisation can deliver sustainability.

The 'power of purpose' rests on having a precise, identity-connected goal that specifically scopes the type of wellbeing value an organisation wants to create, and often for which stakeholder(s). This not only clarifies its purpose but enhances both its meaningfulness and authenticity, thus creating the kind of high-performing

xvii These three different types of stakeholder orientation companies rest on different assumptions about the role of a company in society, as laid out in Chapter 1.

company that attracts the support of stakeholders. Stakeholderism lacks this level of specificity as the goal (or purpose) is to balance the demands of all stakeholders simultaneously. Critics have noted that this makes it difficult to operationalise and measure<sup>xviii</sup>. <sup>141</sup>

Serving all stakeholders also runs the risk of reducing clarity of a company's identity and ability to have meaning in wider society. Given the difficulties of meeting all stakeholder demands (especially when many are in direct competition with one another), some stakeholder-oriented companies choose to prioritise particular stakeholder group(s). Johnson & Johnson's *Credo*<sup>140</sup>, for example, specifically lists their stakeholders in priority order.

In summary, while they intersect in some ways, purpose and stakeholderism are different organisational orientations. Stakeholders are core to the concept of purpose at different levels, but purpose about taking a strategic approach to delivering a contribution to long-term wellbeing for all, which involves choices and trade-offs where win-wins are not possible. As Edward Freeman stated: "Great companies endure because they manage to get stakeholder interests aligned in the same direction." Purpose provides that direction.

### 5.2 Hybrid organisations

Hybrid organisations are those whose core reason to exist comprises both profit *and* purpose maximisation as dual foundational goals. There is a wide body of research on such organisations in the social enterprise literature. <sup>142</sup> <sup>143</sup> Given that, as described in this paper, a profit-maximising BAU logic and a wellbeing-maximising purpose logic represent very different underlying business paradigms, operationalising this can be extremely challenging impacting decision-making at all levels, employee and stakeholder engagement. Operating a hybrid model will therefore require very skilful leadership and management.

This said, hybridity is a very likely reality for organisations transitioning from a classic BAU-oriented approach to one driven by purpose or stakeholder primacy, and may always exist to some extent. In such instances, skilled leadership will be required to guide decision-making on an ongoing basis, manage the resulting tensions, keep the organisational identity comprehendible, minimise the risk of strategic confusion and move towards a stronger strategic position where purpose is the singular primary value generation goal of the firm. These are discussed in more detail in this series' second and third papers, focused on purpose in practice and on culture, respectively.

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xviii The Harvard-based business professor Michael Jensen has argued that "it is logically impossible to maximize in more than one dimension. Purposeful behavior requires a single valued objective function". <sup>141</sup> A recent article by Bebchuk and Tallarita entitled 'The illusory promise of stakeholder governance' and associated Oxford debate between Bebchuk and Mayer (with Bebchuk's proposition entitled 'Corporate Leaders should not serve Many Masters') set out the arguments against serving all stakeholders.

# 6. Concluding remarks: breaking with business-as-usual once and for all

As evidence from multiple disciplines reveals, today's predominant BAU economic system is failing to deliver sustainable wellbeing for all. Even the wellbeing it does succeed in providing for a small proportion of stakeholders is arguably unsustainable. The repercussions of this are fast reaching a crisis point.

As well as threatening wellbeing to the point of imminent no-return, in undermining the social and environmental value on which it intrinsically depends, business-as-usual is eating into its ability to deliver ever-greater financial value for its priority stakeholder (the shareholder) – the very basis for its stakeholder support and the grounds on which it legitimises its wider societal value.

As this paper has sought to show, attempts to modify business-as-usual to retain stakeholder support and protect the means that underpin profits are inadequate. Organisational innovations such as CSR and ESV all eventually come up against the same ideological imperative of profit maximisation, even if it is for the long term. However, enlightened a company's intent may be, this driving priority places non-shareholder/member stakeholders and the 'ultimate end' of durable, equitable wellbeing into a category of secondary importance and limited or no attention being paid to the consequences of this other than the extent to which profits are evidently harmed.

This series maintains that purpose represents a viable and implementable alternative that fundamentally aligns the interests of a business and stakeholders with sustainability. This is because purpose-driven companies make decisions that optimise their productive and innovative potential to create and deliver long-term, inclusive wellbeing in a way that is financially sustainable, as well as sustainable in regards to all other ultimate means that the economy, and society, relies upon. The collective outcome of the efforts of a network of purpose-driven organisations is a sustainable economy that avoids the pitfalls of our current BAU-oriented system.

The natural question is 'how' to transition from a BAU-based system to one that is purpose-driven. How can companies create, implement, measure, and continually improve a business model that revolves around the principle of purpose rather than profit? Furthermore, what are the hurdles they might expect and how might these be overcome?

The next paper in this series looks to provide answers to this hugely relevant set of business-critical questions. Some of these answers remain emergent and pathways will differ from company to company. However, existing theory and embryonic practice offer enough to provide a solid basis for companies not only to grasp the fundamentals of purpose-driven business but to begin putting them into real-world practice – both for their good and for the good of people and the planet as a collective whole.

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